Reputation – The Cinderella Asset

By David Davies

The insurance industry, and most of the risk management specialists that feed off it, have long promoted the idea that reputation risk is triggered by catastrophic events that happen despite the organisation's best efforts. In insurance terms, these are primarily product contamination or product extortion, the only areas for which very limited insurance cover is available. However, such events are but the tip of the iceberg that is the greatest risk facing organisations today.

The real dimensions of reputation risk

Reputation risk is significantly bigger than the traditional view just outlined in three vital aspects:

1. The majority of the real risk arises not because of fortuitous events but because of things that are well within the organisation's control.

For example:

- The cruise company that treated its passengers abysmally when a major refit went wrong, the resulting chaos being filmed by passengers and used copiously in the many media reports that followed. They suffered heavy losses as a result (including USA lawsuits) and their CEO was forced to resign.
- The bank that closed high street branches at the same time as it ran an advertising campaign extolling the merits of being big, followed up days later by awards of large bonuses to its executives. For a time they were dubbed "the UK's most hated bank".
- The CEO of a cheap jewellery retailer who publicly joked about his inferior products – and caused the demise of his company. They ceased trading.
- The marketing campaign that offered free flights of greater value than the goods they were sold with, so engulfing the organisation and earning it accusations that it was using unethical tactics to avoid honouring its obligations. They suffered heavy losses as a result.
- The Scottish bank that entered into a strategic alliance with an American evangelist and as a result had started losing both private and commercial customers even before the evangelist alleged that most Scotsmen were homosexuals. Many commercial and private customers closed their accounts in protest.

There are two apparent common denominators in all of these and in the many more instances of reputation damage that are in the public domain. The first is a lack of awareness of the potential importance of the organisation's reputation; the second is that no person or group of people "owned" the organisation's reputation risk and thus no one was empowered to protect it. In our experience this is also true of over 95% of companies and almost all public sector organisations.

2. Significant damage to reputation can be caused not only by a single catastrophic press revelation but also by the gradual effect of a series of minor stories, vocal dissatisfied customers and weak media responses.

Collectively they erode the trust that people have in the organisation and its values, making them less likely to buy from, work for, or associate itself with it. By their actions, organisations can either create or destroy reputational capital and those that destroy it lose the trust and confidence of the stakeholders that matter to them. This risk has considerably increased in recent years because of the rise of the consumer platform – television programmes and newspaper features that invite and publicise consumer grievances and the unlimited opportunity for self-publicity over the Internet.

Organisations whose reputational capital has been attritionally eroded are far less able to survive the adverse publicity should a major crisis then occur. In the UK, Railtrack is a classic example of this.

3. The organisation's reputation with its customers and potential customers is only a part of its reputation that is at risk.

Employees, potential employees, shareholders, regulatory bodies, analysts and joint venture partners are amongst the groups whose perceptions organisations cannot afford to damage. The impact can be just as great as a badly executed product recall, for example:

- Employees: Major destroyers of shareholder value are loss of employee trust and loyalty and damage to the management's internal reputation. Most boards pay lip service to employees being their "greatest asset" and yet some treat that particular asset, in the words of their employees, "like dirt". They make promises that they fail to keep, fail to communicate with sensitivity, and have no understanding of their employee's needs and perceptions. As a result, they destroy their employee's trust and commitment, create cynics and lose their best talent.
- Potential employees: At least as important as retaining existing employees is the ability to recruit the sort of people that the organisation needs to take it forwards. For demographic reasons, in many countries the skills and qualities that will make all the difference between the organisations that thrive and those that decline will be in increasingly short supply. Therefore, the perception potential employees have of whether organisations can satisfy their development expectations, as well as sharing their values, is becoming increasingly critical. One company's board genuinely believed that as market leader in their field, graduates queued up to apply for vacancies. The reality was that most left after they had the market leader's name and training on their CV and most of their employees felt completely undervalued. Exit interviews were undertaken sporadically and not centrally collated, and the board genuinely believed that their employees were their greatest asset but had made no attempt to test their assumptions that their employees were content.
- The market: There is a polarisation between organisations that do not tell the market enough or present facts badly and those whose desire to impress the market causes them to make rash promises or projections. For example, a newly appointed CEO who so wanted to impress the analysts that he promised that he

would make “several strategic acquisitions” by the end of the following financial year. Those acquisitions did not materialise, the analysts and press remembered the promise, and the share price plummeted. The CEO was forced to resign – even although acquisitions were not strategically necessary.

- Regulatory authorities: Through their general power and arrogance in the market, some organisations have alienated regulatory bodies throughout the globe making regulatory action that is much more likely backed by lack of public and trade sympathy.
- The public: Consumer boycotts of the products or services of organisations whose activities offend them are becoming increasingly common. Brent Spa, South African produce, companies employing under-age labour, animal research laboratories and the UK fuel boycotts in 2000 are examples of this.

Each of those stakeholders has different expectations of the organisation and different issues of sensitivity. Incredibly, few organisations understand and therefore properly manage the multi-faceted and occasionally conflicting expectations of their key stakeholders. In the absence of such an understanding, individual managers make their own assumptions – often incorrectly.

For example, an exercise undertaken by the author revealed that the production director of a well-known manufacturer believed that quality was not important to the firm’s customers as, he believed, they valued products that were innovative and at the leading edge. The production director set the production standards on this assumption whereas the board believed that quality should be the first priority but had not communicated it and no one had consulted their customers or dealers to find what they actually wanted.

Far more than crisis planning and media training

Many people think that reputation risk management is all about crisis management planning and media training. Of course it can make a difference and is soon spotted in its absence. A soft drinks manufacturer decided upon a limited product recall before the causes of the contamination were known and announced as fact, the cause they had wrongly guessed at. When they identified the correct cause, which warranted a global rather than single country recall, they tried to make light of it in their press conference held on a Friday and subsequently closed their offices as usual for the weekend with their directors and others unavailable to the world’s press. They lost market share and were ultimately taken over. However, even the most impeccable crisis planning and media training will fail to prevent damage if it gets into the public domain that the organisation has behaved badly or its senior management incompetently. Crisis planning and media training should account for no more than 30% of the reputation risk management effort. The majority of the effort should concentrate on understanding the organisation’s reputation and its sensitivities and managing its standards accordingly.

The high risk area – complaint handling

One of the most common misjudgements is from employees handling customer complaints. Their perspective is often that their job is to save money for their employer by filtering out fraudulent complaints or claims. One well-known financial services company had seen no reason to extend its quality audit to its customer services area because it was not a profit centre and was therefore unimportant. This

situation has been exacerbated by the outsourcing of customer relations – service, enquiries and complaints – to other companies with completely different values, the greatest pressure on individual operators being dealing with the call within a maximum time allowance.

Contrary to some people's perceptions, just having a public relations function does not provide satisfactory management of your reputation risk. Many PR people excel at getting the organisation's name into the news, not out of it. They have little influence over the causes of reputation damage and yet are expected to perform the impossible if it all goes wrong. In the words of the PR Director at one of the "big five" UK banks, "Public relations for us is like putting lipstick on a gorilla." In the words of the head of PR at one of the world's largest insurance organisations, "I have no idea how I should respond to an accusatory media. I have asked for guidelines or training but no one wants to listen - it's no one's baby."

The risk is exacerbated when, in the absence of procedures, guidelines or training, organisations let their untrained staff be interviewed by the media. When one company was invited to appear on a consumer programme to defend its quality failures, it emailed its staff asking for volunteers. It is such a lax attitude that results in, for example, a senior manager employed by a UK train operator justifying the thousands of unanswered complaints against his company by saying that the number of complaints had risen faster than they could train staff to handle them. He lost his job almost immediately the programme was transmitted.

The value of reputation

When an organisation's values, the image that it promotes, its key stakeholders' expectations, the qualities that it delivers and the way in which it handles dissatisfaction are out of alignment, it is at high risk to reputation damage. However, few organisations identify any miss-match between them.

Contrast this to the copious and often detailed records that most organisations have on their fixed assets, whose value in most cases is insignificant compared to its market capitalisation. For virtually all organisations, physical assets are now less than 25% of the organisation's worth, down from 75% a decade ago, and for new technology companies, less than 10%.

Either directly or indirectly, the majority of every organisation's value is made up of reputation. Brands alone are valued in millions – in some cases billions – of pounds. However, as has been seen, the real picture is much larger. Most of the other intangible assets – skills, knowledge, know-how, strategic alliances, and relationships – are almost entirely dependent on the organisation's reputation with the relevant stakeholders. As Arthur Anderson and Gerald Ratner discovered, if you lose your reputation you lose everything.

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